

Internal Control Audit of the

# **California State Athletic Commission Cash Receipt Cycle**

October 2008

Audit No. 2007-103

**INTERNAL AUDIT OFFICE**

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January 26, 2009

William Douglas, Assistant Executive Officer  
California State Athletic Commission  
2005 Evergreen St., Suite 2010  
Sacramento, CA 95815

Subject: Final Audit Report – Internal Control Audit of the California Athletic Commission Cash Receipt Cycle (2007-103)

Enclosed is the Internal Control Audit Report of the California Athletic Commission's (commission) cash receipt handling practices. We performed this audit to assist the commission in complying with the Financial Integrity and State Manager's Accountability Act of 1983, which requires an assessment of the adequacy of internal controls.

Our audit identified many reportable conditions for which controls could be improved. If left uncorrected, these conditions increase the risk that material errors or irregularities could occur and remain undetected. We have included our specific findings and recommendations in the attached report. As outlined in the response, the commission concurs with our audit findings and plans to take corrective actions to improve its operations. We plan to follow-up on the commission's progress in implementing its corrective actions at 180- and 360-days from the audit report date. The commission's 180- and 360-day responses are due July 27, 2009 and January 26, 2010, respectively.

We would like to inform you of recent changes to the Government Code that added additional reporting requirements for state agencies that do not fully implement its corrective actions. The commission will be required to submit a plan and schedule for correcting the identified internal control weaknesses to the Director of the Department of Finance every six months until all deficiencies are corrected. The Internal Audit Office coordinates this submission and will contact the commission prior to the submission deadlines. Depending on the circumstances, we may also report our follow-up results to the Secretary of State and Consumer Services Agency pursuant to the passage of Chapter 452, Statutes of 2006 (SB 1452).

We would like to thank you and your staff for your cooperation during the audit. If you need further information, please contact our office at 574-8190.

Sincerely,

**Original signed by Cathleen Sahlman**  
Cathleen Sahlman  
Audit Chief

Attachment

cc: Scott Reid, Chief Deputy Director  
Spencer Walker, Senior Advisor to the Director  
Audit Committee Members

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**Attachment I – The Commission's Response to the Draft Report**

The California State Athletic Commission (commission) regulates professional boxing, professional and amateur kickboxing, and professional mixed martial arts throughout the state by licensing all participants and supervising the events. The commission protects consumers by ensuring bouts are fair and competitive while protecting the health and safety of participants.

The commission became a bureau directly under the Department of Consumer Affairs (department), effective July 1, 2006, but was reestablished as a commission, effective January 1, 2007.

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## BACKGROUND

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This audit report addresses the commission's cash receipt process.

This audit included a review of two prior audit reports of the commission, including one performed by the Bureau of State Audits (BSA) dated July 28, 2005 which focused on the Boxers' Pension Plan, and another that was the last department Internal Audit Office (IAO) operational audit report, dated November 14, 2003. We noted several issues affecting the cash receipts process, which, although previously reported, had never been fully addressed or corrected through several administrations and commission Executive Officer changes.

For example, the BSA report on the Boxer's Pension Plan identified the issue of slow check depositing. BSA also found issues with the completeness of documentation maintained for boxing contests. Our audit also identifies the issue of slow deposits, incomplete documentation, and an inefficient and inadequate computer system to conduct its business.

The prior IAO operational audit identified issues with inefficient operations and inadequate accounting practices, cash handling, lack of standardized procedures, and manually driven processes. Once again the audit showed that these issues still exist, and are described in the Findings and Recommendations section of this report.

Each finding includes a recommendation for improvement. Many possible solutions are identified in the recommendations, including new and improved cash handling policies, better separation of duties, altering the distribution of workload, increased staffing, and generally improved cash handling procedures.

In order to establish and maintain adequate internal control in accordance with the State Administrative Manual (SAM), the commission and the Executive Officer should consider the underlying causes for the described deficiencies, and take appropriate action to resolve these issues.

**California State Athletic Commission  
October 2008**

The department Internal Audit Office completed an accounting and administrative control audit of the California State Athletic Commission (commission), as required by Section 20000 of the SAM. The purpose of the audit was to assist the commission in complying with the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983, which requires an assessment of the adequacy of internal controls. Specifically, we reviewed the commission's cash receipts cycle to determine whether adequate internal controls were in place to ensure compliance with state requirements and incorporated sound management practices.

In evaluating the commission's cash receipt handling operations, we interviewed pertinent personnel and reviewed relevant documentation and processes. We performed compliance testing of key functions and compared actual operations to applicable laws, regulations, and guidelines. The audit test period was fiscal year 2007/2008; however, we expanded the test period in certain instances when it was deemed appropriate. The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing*. The last day of audit fieldwork was October 15, 2008.

The audit identified reportable conditions for which controls could be improved. If left uncorrected, these conditions increase the risk that material errors or irregularities could occur and remain undetected. We met with the commission on January 5, 2009 to communicate our audit results. The internal control weaknesses below are addressed in greater detail under the Findings and Recommendations section of this report:

- The commission's cashiering manual is too general and does not include many SAM requirements or procedures specific to the commission's day to day handling of cash receipts.
- The commission has inadequate separation of duties over its cash receipt processing and handling function.
- A commission employee violated separation of duties and handled the receipt of cash inappropriately in dealing with restitution of dishonored checks.
- The commission does not appear to be adequately monitoring or taking action to prevent dishonored checks by promoters for event fees and taxes.
- The commission does not adequately safeguard state assets and information while conducting state business away from its Sacramento office.
- The commission does not provide for adequate accountability over the cash receipts it collects.
- The transfer of funds collected in the field is not adequately documented.
- The commission has had large balances in the uncleared collections account for a number of years and has not taken quick and appropriate action to ensure the money is properly allocated.
- Cash receipts are not deposited in a timely manner.
- The commission lacks an adequate computer system to conduct its business and employs an inaccurate and inefficient manual process using unsecured spreadsheets instead.

We have completed an audit of the accounting and administrative control of the California State Athletic Commission's (commission) cash receipts cycle in effect as of October 15, 2008. Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included audit tests we considered necessary in determining that accounting and administrative controls over the cash receipts cycle are in place and operative.

The commission's management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code (GC) Sections 13402 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of accounting and administrative control are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

Our responsibility is to express an opinion on the adequacy of the commission's internal control over its cash receipt handling activities, based on our audit. Accordingly, our audit included obtaining an understanding of internal control over the cash receipts function; testing and evaluating the design and operating effectiveness of internal control related to this area; and performing such audit procedures as we considered necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control structure, misstatements due to error or fraud may occur and not be detected. Also, projection of any evaluation of the internal control over the cash receipts process to future periods is subject to the risk that the internal control may be adversely affected by changes in conditions that render it inadequate, or that the degree of compliance with the policies and procedures may deteriorate.

Our audit identified several internal control weaknesses relating to the commission's cash receipt handling activities. The following reportable conditions were noted:

- The commission's cashiering manual is too general and does not include many SAM requirements or procedures specific to the commission's day to day handling of cash receipts.
- The commission has inadequate separation of duties over its cash receipt processing and handling function.
- A commission employee violated separation of duties and handled the receipt of cash inappropriately in dealing with restitution of dishonored checks.
- The commission does not appear to be adequately monitoring or taking action to prevent dishonored checks by promoters for event fees and taxes.
- The commission does not adequately safeguard state assets and information while conducting state business away from its Sacramento office.

- The commission does not provide for adequate accountability over the cash receipts it collects.
- The transfer of funds collected in the field is not adequately documented.
- The commission has had large balances in the uncleared collections account for a number of years and has not taken quick and appropriate action to ensure the money is properly allocated.
- Cash receipts are not deposited in a timely manner.
- The commission lacks an adequate computer system to conduct its business and employs an inaccurate and inefficient manual process using unsecured spreadsheets instead.

Based on the cumulative effects of the weaknesses described in the preceding paragraphs, the commission does not maintain an effective system of internal control over its cash receipts functions as of October 15, 2008, based on the requirements of GC section 13400 et seq.

This report is intended for the information and use of the commission and the department and should not be used for any other purpose. However, the report is a matter of public record and its distribution is not limited.

**Original signed by Cathleen Sahlman**

Cathleen Sahlman, Audit Chief  
Department of Consumer Affairs  
Internal Audit Office

October 15, 2008

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## **OBJECTIVES, SCOPE AND METHODOLOGY**

The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing*. The audit objectives were to determine whether:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

The audit methodology included interviewing pertinent personnel, reviewing selected documentation related to the commission's policies and processes, and performing compliance testing, on a sample basis, as deemed necessary. The audit test period was fiscal year 2007/2008; however, we expanded the test period during our review of the commission's cash handling practices because it was deemed appropriate. The last day of audit fieldwork was October 15, 2008.



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## FINDINGS AND RECOMMENDATIONS

### FINDING 1

**The commission's cashiering manual is too general and does not include many SAM requirements or procedures specific to the commission's day to day handling of cash receipts.**

#### Condition

The commission utilizes a cashiering training manual established by the department's Centralized Cashiering Unit (CCU) as a training guide for its clients in 2007. However, the manual is not all inclusive and lacks procedures and policies related to many cash receipt related SAM requirements, such as separation of duties, verification of reports of collections, localized accountability, and safeguarding cash receipts. Further, the manual does not include procedures specific to the commission's day to day handling of its cash receipts.

#### Effect

As a result, the commission does not have a set of written policies and procedures adequate to provide standardized guidance to its staff, which is essential in providing reference to current staff on an as needed basis and a training tool for new employees with cash handling responsibility.

#### Criteria

Government Code 13403 (a) : "The elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, the following: (4): "An established system of practices to be followed in performance of duties and functions in each of the state agencies."

SAM section 20050 states that entity heads are responsible for, "...the establishment and maintenance of internal accounting and administrative controls. Each system an entity maintains to regulate and guide operations should be documented through flowcharts, narratives, desk procedures, and organizational charts. The ultimate responsibility for good internal control rests with management."

#### Recommendation

The commission should update its policies to reflect current commission day to day cash receipt handling practices and include the applicable state laws and SAM requirements as they apply to the handling of cash receipts.

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## **FINDING 2**

### **The commission has inadequate separation of duties over its cash receipt processing and handling function.**

#### **Condition**

The commission has one staff member that has the ability to receive cash receipts, input the receipt information, prepare the manual report of collections, and monitor the status of the report of collections being deposited by the department's cashiering unit. This staff member also has access to the key to the courier bag in which the cash receipts are locked after the supervisory review and approval of the report of collections. This bag is then sent to the department for deposit, creating an opportunity for the staff member to modify the documents after review, and conceal this effort.

Further, almost every commission employee, including its 55 temporary employees, may be asked to handle money at an event and in the field. Commission employees receive money, receipt the money in a receipt book that is controlled by the employee and never reviewed or reconciled by the commission, record the receipts on a "show payment balance sheet" (payment sheet); and safeguard the receipts until the money and payment sheet is provided to the commission cashier for processing at a later date. Further, some of these employees also have access to update or change the licensing spreadsheets used to track the license statuses. At the time of an event, these spreadsheets are used to determine which fighters and other people in need of a license (i.e. seconds, managers, etc.) are already licensed.

In addition, the Chief Athletic Inspector violates separation of duties requirements, because in addition to performing many of the tasks associated with the athletic inspectors as previously described, this position is also charged with the task of reconciling the information, money and fees calculated and collected, even for the events he is in charge of.

#### **Effect**

As a result, a risk exists that errors or misappropriation of assets could occur and remain undetected. For example, someone could accept cash at an event, change the license status to "clear" in the spreadsheet and pocket the money. Because the receipt books are not collected and reconciled, the employee could even write a receipt for the cash and the misappropriation of funds could still go completely unnoticed.

#### **Criteria**

Government Code section 13403(a)(1): The elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, the following: A plan of organization that provides segregation of duties

appropriate for proper safeguarding of state agency assets.

State Administrative Manual (SAM), Section 8080.1, states that agencies with automated accounting systems should ensure appropriate separation of duties by not assigning staff to perform more than one of the following duties:

- Receive and deposit remittances ( included in SAM Section 8080)
- Input receipt information
- Reconcile input to output

SAM, Section 8080.2 states that agencies with combined automated and manual processes should use sections 8080 and 8080.1 in combination to obtain adequate separation of duties.

**Recommendation**

The commission should review the cashiering functions and its other administrative responsibilities and separate incompatible duties where possible. They should implement mitigating measures sufficient to address the risk of misappropriation of funds due to fraud or undetected errors for areas in which the duties cannot be feasibly separated. As part of this review, the commission should consider redistributing its workload to shift its resources to adequately cover these responsibilities in order of priority. If the commission feels that it will require additional staffing resources to effectively accomplish the administrative operation of the commission, it should take steps to submit a request through the Budget Change Proposal process.

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## **FINDING 3**

### **A commission employee violated separation of duties and handled the receipt of cash inappropriately in dealing with restitution of dishonored checks.**

#### **Condition**

At least two promoters and one other entity wrote checks to the California State Athletic Commission which were dishonored by the bank. A commission employee then accepted cash payment from the promoter and others in lieu of these previously dishonored checks. The commission employee then purchased certified checks made payable to the commission on behalf of the parties owing money under a private bank account. The amount of the checks purchased were the appropriate amounts owed to the commission. The commission did not provide receipts for the cash received from the promoter and others as required by SAM. It is not appropriate, nor is it a prudent business practice, for a commission employee to purchase a negotiable instrument on behalf of promoters or individuals owing the commission money. Further, the commission employee's responsibilities include reconciling the event information, including promoter fees and taxes due, which some of the dishonored checks were attributable to. The commission employee violated both the cash receipt requirements under SAM 8020, and separation of duties requirements under SAM 8080.

#### **Effect**

As a result, there is an increased risk that fraudulent activity could occur and remain undetected. This type of transaction creates an inappropriate perception of the employee and the commission with regard to its relationships with certain promoters and/or individuals.

#### **Criteria**

Government Code Section 13403 states that the elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, the following:

- (1) A plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets.
- (2) A plan that limits access to state agency assets to authorize personnel who require these assets in the performance of their assigned duties.
- (3) A system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.
- (4) An established system of practices to be followed in performance of duties and functions in each of the state agencies.
- (5) Personnel of a quality commensurate with their responsibilities.
- (6) An effective system of internal review.

State Administrative Manual (SAM), Section: 8080.1, states that agencies with automated accounting systems should ensure appropriate separation of duties by not assigning staff to perform more than one of the following duties:

- Receive and deposit remittances ( included in SAM Section 8080)
- Reconcile input to output

8080.2, states that agencies with combined automated and manual processes should use sections 8080 and 8080.1 in combination to obtain adequate separation of duties.

8020

State Agencies will prepare receipts for the following transactions:

- a. All collections, unless specifically exempted in writing by the Department of Finance, Fiscal Systems and Consulting Unit, of coin or currency received in person from payers who are not given press-numbered documents of fixed value (such as guest meal tickets) at the time of payment.

Additional Criteria: It is not a prudent business practice to introduce personal or unrelated bank accounts in any way into a business transaction between a client and a state entity such as the commission, even if it is merely purchasing a money order or cashier's check on the client's behalf.

### **Recommendation**

The commission should ensure that all employees are aware of the proper procedures regarding the handling of cash receipts and require that all dishonored check payments be directed to the headquarters office and not handled in the field. The commission employee should have instructed the promoters or individuals in these cases to purchase the money orders or certified checks themselves and mail them directly to the commission.

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## **FINDING 4**

### **The commission does not appear to be adequately monitoring or taking action to prevent dishonored checks by promoters for event fees and taxes.**

#### **Condition**

The commission's cashier tracks dishonored checks through an Excel spreadsheet, which includes the payee's name, the check amount, date, and disposition/status. At least three promoters that continue to promote in this state continue to submit checks for payment that are dishonored. It does not appear that the commission management is taking steps to address the issue and prevent repeat offenses. This issue is exacerbated given the commission's practice of turning over cash collected by the commission to the promoters on the night of events and allowing them to include the cash amounts in checks made payable to the commission at the end of the event. The purpose of this practice is to alleviate cash handling duties for the commission while at the event. However, if the checks do not clear and the promoter does not pay the amounts back, the commission loses both the cash collected for the events and the fees and taxes due from the promoter.

#### **Effect**

As a result, there is an increased risk of the unnecessary loss of revenue.

#### **Criteria**

Government Code Section 13403 states that the elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, the following:

- (3) A system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.
- (4) An established system of practices to be followed in performance of duties and functions in each of the state agencies.
- (6) An effective system of internal review.

Business and Professions Code Section:

18827. If a promoter fails to pay any tax ascertained to be due under this chapter, in addition to the costs of the examination under Section 18826, if any, within 30 days after receipt of notice by the executive officer, the commission may without hearing revoke or suspend the promoter's license and authorize the Attorney General to bring an action in superior court to collect the amount due, any fines authorized by this chapter, and attorney's fees. The action shall be speedily determined by the court and shall take precedence over all matters pending therein except criminal cases, applications for injunction or other matters to which special precedence has been given by law.

18836. In case of default in the payment of any tax due under

this chapter, the commission may refuse to issue a permit to any person so defaulting regardless of whether the application for the permit is made solely in the name of the person, or together with others.

**Recommendation**

The commission should:

- Closely monitor the dishonored check spreadsheet and consider requiring alternative methods of payment by the promoters after their first dishonored check.
- Formally review the risk of allowing repeat offenders to continue promoting in California and consider exercising its rights under the law to disallow further activities in the state.
- Discontinue the practice of turning over the cash at an event for inclusion in the check written by the promoter for taxes and fees, if the promoter has had previous dishonored checks.
- Institute alternative procedures of handling collected cash or requiring only non-cash forms of payment for those particular events.

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## **FINDING 5**

### **The commission does not adequately safeguard state assets and information while conducting state business away from its Sacramento office.**

#### **Condition**

The commission oversees boxing, mixed martial arts, and kickboxing events at various locations throughout the state. During these events and the associated weigh-ins the commission collects money and personal information (including home addresses, social security numbers, and medical information) in the field and its employees carry the information and assets with them until they arrive back at the Sacramento office or can provide the information and assets to the Chief Athletic Inspector in Southern California.

During an event and weigh-in observation, the auditor observed the folder containing personal and confidential information, the cash receipt book and the collected cash receipts left unattended on numerous occasions. The auditor also observed an ESPN employee with a laptop at the table, who, on numerous occasions, looked through the papers spread out on the table while the table was unattended by commission staff. Additionally, during the event, there was confusion as to the location of the cash collected at the end of the night. The lockable bags used to carry information to and from the events do not seem to be locked during the weigh-ins and events.

#### **Effect**

As a result, a risk exists that errors or misappropriation of assets could occur and remain undetected and that personal and confidential information could be lost, misplaced, or stolen.

#### **Criteria**

Government Code section 13403 states that the elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, the following:

- (1) A plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets.
- (2) A plan that limits access to state agency assets to authorize personnel who require these assets in the performance of their assigned duties.
- (3) A system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.
- (4) An established system of practices to be followed in performance of duties and functions in each of the state agencies.

Business and Professions Code Section 18602.1 states: Protection of the public shall be the highest priority for the State Athletic Commission in exercising its licensing, regulatory, and



disciplinary functions. Whenever the protection of the public is inconsistent with other interests sought to be promoted, the protection of the public shall be paramount.

Department of Consumer Affairs Policy and Procedures:

EXEC 03-05 (issued July 11, 2003): The attached "Privacy Policy Statement" includes the following statement: We take reasonable precautions to protect the personal information on individuals collected or maintained by the Department against loss, unauthorized access, and illegal use or disclosure.

ISO 06-01 (issued December 1, 2006): The memo states in part: DCA information shall be protected according to its sensitivity, criticality, and value—from the time it is created until the time it is destroyed or transferred. All DCA information assets will be classified by the owner as to the level of protection required and must be protected in a manner that is consistent with its classification.

The owner of the information is responsible for defining special security precautions that must be followed to ensure the integrity, security, and appropriate level of confidentiality of sensitive and personal information as defined below:

2. Personal Information—information that identifies or describes an individual as defined below. This information must be protected from inappropriate access, use, or disclosure and must be made accessible to data subjects upon request.

a. Notice-triggering Personal Information—specific items or personal information (name plus Social Security number, California driver's license/identification card number, or financial account number) that may trigger a requirement to notify individuals if it is acquired by an unauthorized person.

b. Protected Health Information—individually identifiable information created, received, or maintained by such organizations as health care payers, health care providers, health plans, and contractors to these entities, in electronic or physical form. State law requires special precautions to protect such information from unauthorized use, access, or disclosure.

Physical Security: Access to every office, computer room, and work area containing confidential or sensitive information must be physically restricted to prevent unauthorized access. Confidential information in paper form shall be appropriately secured when left unattended or during non-working hours.

*Finding 5*

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**Recommendation**

The commission should review its methodology for accepting and protecting state assets and personal/confidential information and institute controls over the processes to conform to the mandates set forth in state law and departmental policy.

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## **FINDING 6**

### **The commission does not provide for adequate accountability over the cash receipts it collects.**

#### **Condition**

The commission does not have an adequate system of localizing the accountability of the cash receipts it collects. Specifically, the receipt books are kept by various athletic inspectors across the state. The commission does not track the number sequences of the pre-numbered cash receipts it provides to athletic inspectors nor does it require the athletic inspectors to return the used receipt books so that they can be reconciled. While the commission does use logs showing payment, they are not reconciled to the receipt books to ensure that no receipt was overlooked. This negates any benefit derived from utilizing pre-numbered receipts, as the numbering is not inventory controlled.

Additionally, because the receipt books are not collected by the commission and it is not usually clear who wrote a receipt without having a copy of it, we were unable to determine in many cases whether the commission was even meeting the SAM requirement of using receipts for all cash collected.

#### **Effect**

These conditions could result in late detection of errors or theft of cash receipts, difficulty determining if all fees were collected for all licenses issued, as well as difficulty determining who handled receipts for a given event.

#### **Criteria**

Government Code section 13403 states that the elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, the following:

- (2) A plan that limits access to state agency assets to authorize personnel who require these assets in the performance of their assigned duties.
- (3) A system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

SAM Section: 8020 states that State Agencies will prepare receipts for the following transactions:

- a. All collections, unless specifically exempted in writing by the Department of Finance, Fiscal Systems and Consulting Unit, of coin or currency received in person from payers who are not given pre-numbered documents of fixed value (such as guest meal tickets) at the time of payment.
- b. All collections from payers who request receipts.

- c. All collections where a receipt is needed by the payer as a temporary permit pending issuance of a license.

All receipts, except transfer receipts, will be press-numbered. See SAM Section 8021. The amount received will be written on receipts in figures only. An inventory control will be kept for press-numbered receipts. All copies of receipts and licenses, except the originals, will show the following printed statement "Copy—Not a valid receipt" or "Copy—Not a valid license".

**Recommendation**

The commission should:

- Institute procedures to localize accountability for money received in the field,
- Control and monitor the use of receipt books and consider reconciling the receipts issued to payments deposited on an ongoing basis.

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## **FINDING 7**

### **The transfer of funds collected in the field is not adequately documented.**

#### **Condition**

The commission does not currently document the transfer of money collected in the field. While SAM does not specifically require transfer receipts for cash receipts transferred between employees, the lack of controls ensuring localized accountability and safeguarding of the cash receipts in the field as noted in Finding 5 and in Finding 6 highlights the need for increased controls in this area. During an event observation conducted by the auditor, it was noted that cash and checks collected by the commission passed through several hands before being taken by the Executive Officer.

Furthermore, the commission does not require the promoter to sign for cash received when it is transferred to them making it difficult to prove that any money was transferred.

In addition, the commission does not have a procedure to prelist or use transfer receipts when it receives cash receipts not made payable to it, as required by SAM.

#### **Effect**

As a result, a risk exists that errors or misappropriation of assets could occur and remain undetected.

#### **Criteria**

Government Code section 13403 states that, the elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, the following:

- (2) A plan that limits access to state agency assets to authorize personnel who require these assets in the performance of their assigned duties.
- (3) A system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

#### **SAM Section:**

8020.1 states all incoming mail receipts consisting of cash and negotiable instruments, not payable to the State agency, will be prelisted by the person opening the mail to localize accountability of these assets.

8021 requires a separate series of transfer receipts be used to localize accountability for cash or negotiable instruments to a specific employee from the time of its receipt to its deposit. This series of receipts need not be press numbered. A receipt will be signed by the receiving employee whenever cash or checks not payable to the State agency are transferred between employees. State agencies will retain copies of these receipts.

**Recommendation**

The commission should:

- Create prelistings and transfer receipts for cash receipts not made payable to the commission,
- Consider using transfer receipts of some sort when transferring cash in the field and to the headquarters staff and promoters,
- Institute procedures to localize accountability for money received in the field.

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## FINDING 8

**The commission has had large balances in the uncleared collections account for a number of years and has not taken quick and appropriate action to ensure the money is properly allocated.**

### Condition

The commission began accumulating large amounts of revenue in the uncleared collections account in FY 04/05 due to staffing issues that complicated the effective cashiering of the commission's cash receipts. As seen in the diagram below, the balance in the account was nearly \$900,000 by the end of FY 04/05 and over \$120,000 of these funds still remains in the account as of the end of FY 07/08. Money placed in an uncleared collections account should be allocated to the proper accounts as soon as possible as the money does not accumulate interest, nor can it be claimed as revenue for the applicable entity until it is credited to the appropriate accounts.

Fiscal Year	Year-end Balance
04/05	\$898,081.12
05/06	\$309,112.41
06/07	\$278,211.81
07/08	\$120,560.27

### Effect

As a result, there is over \$120,000 in revenue attributable to FY 04/05 that cannot be used by the commission.

### Criteria

SAM section:

10452 defines the Uncleared Collections account as an account whose cash collections must be reviewed to determine if they are to be accepted for a fund in the State Treasury or are to be refunded to payers. This account also contains fees which are not earned until a permit, license or other document is actually issued.

7826 defines the subsidiary account – Uncleared Collection File – as receipts for cash, application forms, remittance advices and other documents supporting cash receipts, the disposition of which can not be identified or which can not for any reason be cleared as revenue, reimbursements, etc., are placed in this file. They are removed and disposition noted thereon as the items are cleared and applied or are refunded.

10508 states that the items in the Uncleared Collections account should be cleared as revenue at least once each quarter.

Business and Professions Code 18800, states that all moneys received by the commission, except for those belonging to the

*Finding 8*

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Boxer's Pension Fund, be remitted to the State Treasurer and deposited into the Athletic Commission Fund.

**Recommendation**

The commission should move quickly to determine the appropriate accounts for which the remaining \$120,000 in the uncleared collections account should be allocated, in order to use the money for the appropriate purposes in the fulfillment of the commissions stated missions. If the commission lacks the personnel or expertise to accomplish this task, it should pursue the appropriate personnel through administrative action or the Budget Change Proposal process.



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**FINDING 9****Cash receipts are not deposited in a timely manner.****Condition**

A review of commission report of collections and individual cash receipts revealed that the commission is not consistently processing its cash receipts within the 10 business days required by SAM 8032.1. Specifically, 18% of the report of collections tested exceeded this requirement. To determine how extensive the problem is, 13 of the largest cash receipts deposited as part of reports of collections that were not taken exception to in the high level test described were sampled to determine how long they were held from receipt to deposit. This test revealed that 12 of the 13, or 92% were held longer than 10 business days before deposit.

Also, many of the commission transfers in the period tested exceeded the \$10,000 accumulation limit required by SAM 8032.1. At least one transfer in question was more than \$120,000.

**Effect**

As a result, the commission is unnecessarily delaying the posting of revenue to its accounts, and not properly maximizing its interest earnings.

**Criteria**

State Administrative Manual (SAM) Section: 8030 states it is imperative that agencies report deposits in a timely and accurate manner in order to expedite the reconciliation of their agency accounts and to maximize interest earnings.

8032.1 states accumulated receipts of any amount will not remain undeposited for more than ten working days. An agency may deposit more often than once a day at its discretion and when it is economical or practical to do so because of the size of its receipts.

Agencies that do not have a safe, vault, or money chest that is adequate to safeguard cash will accumulate collections until they amount to \$250 in cash or \$10,000 in cash, checks, money orders, and warrants (excluding state warrants and state checks), whichever occurs first. When such funds are not in use, they will be locked in a desk, file cabinet, or other mechanism providing comparable safekeeping.

**Recommendation**

The commission should ensure that it processes the cash receipts received as quickly as possible, in accordance with the SAM requirements.

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## **FINDING 10**

**The commission lacks an adequate computer system to conduct its business and employs an inaccurate and inefficient manual process along with unsecured spreadsheets instead.**

### **Condition**

The commission tracks all of its information, including licensee and medical information on unsecured and unprotected Excel spreadsheets. These documents can be easily manipulated, even unintentionally, and there are no controls to ensure that accurate information is entered or that all pertinent fields are captured. The information is not linked and useful reports cannot be run. Additionally, the commission does not even have the capability to print licenses for its licensees.

Further, our review of the event documents and related applications, revealed that the information contained within the spreadsheets is not always accurate. The current system of checking event information manually and utilizing a series of handwritten documents, which are very often hard to read, is inefficient and can lead to mistakes.

### **Effect**

Without accurate information regarding the licensees and the commission's overall operations, the health and safety of the commission's licensees and the state's assets cannot be guaranteed.

### **Criteria**

Government Code section:

13402. State agency heads are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

13403. ...The elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, the following:

- (2) A plan that limits access to state agency assets to authorize personnel who require these assets in the performance of their assigned duties.
- (3) A system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

### **Recommendation**

The commission should resume its abandoned efforts to procure a computer system that will meet its needs. In the interim, the commission should work with the department's

## *Finding 10*

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Office of Information Systems (OIS) to obtain use of the department's Applicant Tracking System (ATS) and the Consumer Affairs System (CAS). These systems are limited in their capabilities but could provide better controls over the commission's information and assets than it currently has if utilized properly. Additionally, the commission should consider utilizing laptops and blackberries to provide accurate, updated, and consistently legible information in the field.



# **ATTACHMENT I**

## **Commission's Response to the Draft Report**



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January 23, 2009

Cathleen Sahlman, Audit Chief  
Internal Audit Office  
1625 North Market Blvd., Suite S-202  
Sacramento, CA 95834

Dear Ms. Sahlman,

Thank you for the feedback provided by your staff during the internal audit of the California State Athletic Commission's cash receipt cycle. Listed below are my responses to the findings from the report.

**Finding 1**

**The commission's cashiering manual is too general and does not include many SAM requirements or procedures specific to the commission's day to day handling of cash receipts.**

Response: Agree

Action: The Commission intends to update its policies by applying state laws and SAM requirements into the day to day handling of cash receipts by restructuring the entire cash receipt process. It is anticipated that the cash receipt process will be restructured and in place by December 31, 2009.

**Finding 2**

**The commission has inadequate separation of duties over its cash receipt processing and handling function.**

Response: Agree

Action: The Commission is in the process of hiring full time permanent staff and filling all office vacancies. Additionally, the Commission has received approval for one additional position beginning on July 1, 2009. The position was obtained through the Budget Change Proposal process. Once hiring is completed, the redistribution of workload will commence with filing of new duty statements in the Office of Human Resources. This measure is being taken to insure there is no misappropriation of funds. It is anticipated that the separation of duties will be completed by December 31, 2009.

**Finding 3**

**A commission employee violated separation of duties and handled the receipt of cash inappropriately in dealing with restitution of dishonored checks.**

Response: Agree

Action: Training is going to be administered to all employees to make them aware of the Commission's cash receipts policy and procedure. Dishonored checks are going to be directed to the Sacramento office. It is anticipated that this directive will be administered by June 30, 2009 after proper training is conducted with all Commission staff at the next "all hands meeting."

#### **Finding 4**

**The commission does not appear to be adequately monitoring or taking action to prevent dishonored checks by promoters for event fees and taxes.**

Response: Agree

Action: The Commission's procedure regarding dishonored checks needs to be formalized in writing for the very first time. Items to include in the written procedure are: creation of a dishonored check database and disciplinary measures taken after the first dishonored check, formal review of Promoters who pass dishonored checks to the Commission to determine whether their license should be revoked, overhaul of the cash handling procedures at a live event, and collection of non-cash forms of payment. It is anticipated that this procedure will be implemented by June 30, 2009.

#### **Finding 5**

**The commission does not adequately safeguard state assets and information while conducting state business away from its Sacramento office.**

Response: Agree

Action: The Commission is assessing its need for remote access to records (mandatory) and methods of securing records that are needed in the field (locking mechanisms placed on travel gear). It is anticipated that initial review of the security needs will be completed by March 31, 2009 with full implementation by July 1, 2009. Any business items related to the Office of Information Services could require a budget change proposal or Feasibility Study which could extend completion of this requirement into another fiscal year.

#### **Finding 6**

**The commission does not provide for adequate accountability over the cash receipts it collects.**

Response: Agree

Action: The Commission's procedure regarding accountability over cash receipts needs to be formalized in writing for the very first time. Items to include in the written procedure are: Localizing the receipt of money as much as possible in the Sacramento office and instituting strict use of receipt books and deposit items. It is anticipated that this procedure will be implemented by June 30, 2009.

#### **Finding 7**

**The transfer of funds collected in the field is not adequately documented.**

Response: Agree

Action: The Commission's procedure regarding transfer of funds collected in the field needs to be formalized in writing for the very first time. Items to include in the written procedure are: Procedures for transfer receipts for cash receipts not payable to the Commission, procedures for transfer receipts when transferring cash in the field and to the Sacramento office, and localizing the receipt of money as much as possible in the Sacramento office. It is anticipated that this procedure will be implemented by June 30, 2009.

#### **Finding 8**

**The commission has had large balances in the uncleared collections account for a number of years and has not taken quick and appropriate action to ensure the money is properly allocated.**

Response: Agree

Action: The Budget Change Proposal has already been approved for one additional position beginning July 1, 2009. Recruitment is underway to fill three office vacancies that currently exist and once staffing is fully completed (anticipated completion of February 28, 2009), efforts will be made to locate the source of the remaining funds in the uncleared collections account. It is anticipated that these funds will be cleared out by September 30, 2009.

#### **Finding 9**

**Cash receipts are not deposited in a timely manner.**

Response: Agree

Action: The current process in place has every event packet for Southern California events routing through the Chief Athletic Inspector for his review prior to submitting the "show pack" to the Sacramento office. The procedure is going to change and be placed in written format for the very first time. It is anticipated that this procedure will be implemented by February 28, 2009.

#### **Finding 10**

**The commission lacks an adequate computer system to conduct its business and employs an inaccurate and inefficient manual process along with unsecured spreadsheets instead.**

Response: Agree

Action: The current process in place is beyond prehistoric. Efforts will be made to restart the process for a Feasibility Study on a new database. Additionally, options regarding DCA's Applicant Tracking System (ATS) and Consumer Affairs System (CAS) will be explored. Options for remote activity in the field (laptops, blackberries) are already being explored. It is anticipated that this process could stretch over the next two fiscal years depending on which option is selected.